



**State of Tennessee
Department of Finance and Administration
Bureau of TennCare
310 Great Circle Road
Nashville, TN 37243**

February 7, 2008

Mr. Gerald Coggin, Senior Vice President
National HealthCare Corporation
P.O. Box 1398
City Center, 100 Vine Street
Murfreesboro, Tennessee 37130

Dear Gerald:

Thank you for meeting with Patti and me last week regarding Governor Bredesen's plan to restructure the long-term care system for the elderly and adults with physical disabilities in Tennessee. It is important to us that we gather input from key stakeholders, and that we integrate as much of that feedback as possible into the final long-term care proposal.

As we discussed, we anticipate that the number of people currently in nursing homes that can transition home will be relatively small. We must be able to ensure that the needs of persons who want to receive HCBS can be safely met in the home and community-based setting and that HCBS will be a cost-effective alternative to institutional care. Changes in the balance of expenditures between nursing home and HCBS will not happen immediately; there are no planned reductions for Nursing Facility expenditures in the 2009 fiscal year. Rather, any changes in this regard will more likely occur over time, and will result not so much from transitioning people out of nursing homes, as much as allowing cost-effective choices to direct the flow of people into the LTC system. In an effort to implement system wide changes in a methodical manner, we would anticipate putting in place the various components of the system during FY 2009 and would not anticipate nursing homes seeing any substantial impact of these changes until some time during FY 2010.

By that time, it is our hope that NHC facilities and other nursing facilities will have had ample opportunity to diversify their lines of business by beginning to also offer services such as adult day care, home-delivered meals, Assisted Care Living Facility services, and the same kinds of homemaker and personal care services that they provide in their facilities to people in their homes as well. You noted that NHC already has as many home care organizations operating in the State as nursing facilities, so NHC is clearly ahead of the curve in terms of LTC trends. However, you indicate that reimbursement has been a barrier in terms of expansion into the HCBS waiver program.

While separate from the issue of reimbursement, there have been some discussions about encouraging enterprise diversification by possibly identifying a small amount of funding to support training and technical assistance, as well as small incentive grants to help defray diversification costs. Facilities

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can also "specialize" by developing more intensive services for specified "chronic-care populations" such as persons who are ventilator-dependent.

We appreciate the open dialogue regarding the implementation of an acuity-based reimbursement methodology, and found it reassuring that the other nine states in which you currently operate have already taken this important step forward. We will take a look at the South Carolina reimbursement structure as you suggested. We are considering a phase-in approach similar to what was used by Medicare in the implementation of RUGs, with perhaps quarterly or semi-annual phase-in periods (75% cost-based/25% acuity-based; 50% cost-based/50% acuity-based; 25% cost-based/75% acuity-based; 100% acuity-based) that will allow time for nursing facilities to more easily adapt to the change.

Development and planning for an acuity-based reimbursement system will likely be conducted in FY 2009. We would then plan to begin phasing in implementation of an acuity-based reimbursement system by FY 2010. As we discussed, implementation would be budget neutral to the state. However, individual nursing facilities serving higher acuity patients will likely receive higher reimbursement under the new system.

You also expressed concern regarding the *Linton* decision, and its negative impact on the ability of nursing facilities to manage their payor mix in order to continue as financially viable organizations. It is yet another example of the stranglehold that lawsuits have had on the Tennessee health care system. We will take a fresh look at this Order, and also at the South Carolina approach regarding Medicaid permit days.

Thank you for sharing information regarding the impact that liability insurance and settlements are having on the cost of nursing facility care in Tennessee. While we must ensure that quality care is provided and that there is absolute accountability for any failures of the LTC system, we believe it is inappropriate when out-of-state law firms exploit vulnerable individuals and family members in order to increase their own revenues.

As stated in the meeting last week, we invite any additional written comments you have. Specifically, we welcome your input regarding key principles of the new long-term care system, as well as other issues or barriers that you believe should be addressed in order to better meet the long-term care needs of the elderly and adults with physical disabilities.

We will continue gathering initial feedback through next Friday, February 15th, with a goal of finalizing a draft legislative proposal by the end of the month.

Again, we thank you for sharing your thoughts and ideas. This is only the beginning of an ongoing dialogue that will continue to help shape the new long-term care system, beyond design to implementation. We look forward to working with you in that regard, and to building a new long-term care system that is more responsive to the needs and wishes of Tennesseans who need this care today, and the ever-expanding elderly and disabled populations who will need them in the future.

Sincerely,



Darin J. Gordon
Deputy Commissioner

cc: Patti Killingsworth, Chief of Long Term Care